

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7665

Petition of Town of Stowe Electric Department)
Pursuant to 30 V.S.A. § 108(c) for Approval to)
Finance the Acquisition of Vermont Transco, LLC)
Membership Units)

Order entered: 10/27/2010

I. INTRODUCTION

On August 26, 2010, the Town of Stowe Electric Department ("Stowe" or "the Company") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. § 108(c) to issue \$910,000 in long-term debt ("Member Unit Financing") to finance the purchase of its 2010 allocated share of Class A and Class B units ("Member Units")¹ in Vermont Transco, LLC ("Transco"). The Member Units consist of "make-up" equity and transmission share equity related to Stowe's share of Vermont transmission costs. Stowe plans to finance the purchase with a taxable bank loan provided by Union Bank ("Union"). The Petition was supported by the testimony of Patrick Householder, Controller for Stowe, and by accompanying exhibits.

On September 20, 2010, Stowe submitted a letter with attached Exhibit SED-3 consisting of a copy of Stowe's formal commitment letter from Union regarding the proposed bank loan.

On September 28, 2010, the Vermont Department of Public Service ("DPS") sent a letter with attached Determination Under 30 V.S.A. § 202(f) to the Board recommending that the Board approve the Petition without hearing and finding that the issuance of long-term debt as set forth in the Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f).

1. Equity units are generally referred to as "member units" in the Operating Agreement for Vermont Transco LLC.

The DPS also submitted a separate letter on September 28, 2010, stating that it believes that the Petition is consistent with the general good of the state, and recommending approval of the Petition without a hearing.

I have reviewed the Petition, the supporting testimony, and accompanying documents. I conclude that approval of Stowe's Petition pursuant to 30 V.S.A. § 108(c) is appropriate and that such approval may occur without hearing. Based upon the evidence of record and the testimony and exhibits presented in this docket, and the DPS letters of September 28, 2010, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS

1. Stowe is a company as defined by 30 V.S.A. § 201, and a municipal electric utility within the meaning of 30 V.S.A. Chapters 14 and 79. Petition at 1.

2. Transco is preparing to offer additional membership units to Vermont distribution companies for 2010 primarily in accordance with their respective "Transmission Costs."² Stowe plans to purchase its full allotment of the 2010 equity issuance. Stowe's allocated share of the issuance is estimated to total \$907,660, consisting of \$348,000 of "make-up" equity and \$559,660 of regular share equity. "Make-up" equity represents Transco equity that was allocated to Stowe in the past but which Stowe did not purchase at the time of the initial offering.³ Stowe is now being given an opportunity to purchase that equity so as to equalize its ownership share in Transco with its transmission-cost share. Petition at 1; Householder pf. at 2.

3. The ratio of Class A and Class B units will be determined by Transco; however, if it is the same as the 2009 equity issuance, it will be 44% of the Class A units and 56% of the Class B units. Class A units pay a dividend rate of 11.50% and Class B units, which can only be owned

2. Stowe's filing did not provide a definition for the term "Transmission Costs." However, in a pending petition filed by Transco in Docket No. 7677, Transco states that Transmission Costs or "Transmission Costs Share" is a new term which replaces and refines the term "load ratio share" under Transco's Amended Operating Agreement that previously served as the basis for Transco's equity allocation offered to Vermont distribution utilities. In its petition, Transco proposes to base all future offerings of equity to Vermont distribution utilities, subject to exceptions for specific-facility equity and make-up equity, on the transmission costs paid by those utilities to Transco and the Independent System Operator New England, Inc. Docket No. 7677, Dutton pf. at 3-4.

3. See Docket No. 7310, Order of 10/15/08 at 7, for an explanation of Transco's "make-up" equity purchase arrangement with the Lamoille County Project participants.

by municipal utilities, pay a dividend rate of 13.50%. Stowe's blended dividend rate, assuming the 44/56 ratio of Class A and Class B units, will be 12.5%. *Id.*

4. Stowe has received a commitment from Union to provide the Member Unit Financing with a \$910,000 bank loan at a taxable fixed rate of interest of 6.5%. The loan term is for ten years with a twenty-year amortization. Union has committed to renew the loan after ten years for an additional ten years, but with an adjustment to the interest rate depending on market conditions in existence at that time. Householder pf. at 3; exh. SED-3.

5. Stowe estimates that the arbitrage spread between the anticipated blended dividend rate of 12.5% and the rate of interest on the bank loan of 6.5% will be sufficient to cover principal and interest payments (approximately \$81,417 annually) on a loan with a twenty-year amortization schedule and still provide a net annual return of approximately 0.3% (\$32,300) to mitigate transmission costs for the benefit of ratepayers. While it is possible that the interest rate on the bank loan may increase by the time it is renewed by Union, Stowe anticipates that it would not increase more than the .3% return based on the current dividend rate, because the principal balance after ten years will be significantly reduced resulting in lower total debt service. Should interest rates increase significantly, Stowe anticipates that Transco would likely increase its dividend to remain competitive in the marketplace. Householder pf. at 3; exh. SED-2.

6. The Town of Stowe has warned a public meeting for November 2, 2010, to vote on the proposed Member Unit Financing. Householder pf. at 4.

III. DISCUSSION & CONCLUSION

Based on the evidence outlined above, I recommend Board approval of Stowe's financing request without hearing. Stowe's current request for \$910,000 in long-term debt financing to purchase its 2010 allocated share of Class A and Class B Member Units from Transco will allow Stowe to purchase its full allotment of the equity issuance and will not place an additional financial burden on Stowe since the cash distributions from the Member Units will be sufficient to cover the related debt-service. Therefore, I find that approval of Stowe's request for long-term indebtedness in an amount not to exceed \$910,000 as described in the findings above is

consistent with the general good of the state and recommend that the Board issue an order to that effect.

The parties have waived their rights to file exceptions and present arguments under 3 V.S.A. § 811. Therefore, the proposal for decision has not been served on the parties.

Dated at Montpelier, Vermont this 27th day of October, 2010.

s/ Jay E. Dudley

Jay E. Dudley
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are accepted and adopted.
2. The request for financing as set forth in the Town of Stowe Electric Department's ("Stowe") Petition in this docket and as described in the Findings is consistent with the general good of the State of Vermont.
3. Pursuant to 30 V.S.A. §108(c), consent is hereby given to Stowe to issue long-term indebtedness to finance its purchase of its 2010 allocated share of Class A and Class B units in Vermont Transco, LLC, in an amount not to exceed \$910,000, according to terms and rate consistent with the Findings above.
4. This Order does not constitute approval of Stowe's capital structure or of any particular capital or operating expenditure that may be implemented with the proceeds from the issuance of long-term debt contemplated in the Petition in this docket. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Vermont Public Service Board ("Board"), from reviewing or challenging such expenditures or Stowe's resulting capital structure.
5. Stowe shall provide the Board and the DPS with a complete set of final executed loan documents within 30 days of the loan closing.
6. Stowe shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.

Dated at Montpelier, Vermont, this 27th day of October, 2010.

<u>s/ James Volz</u>)	
)	PUBLIC SERVICE
)	
)	BOARD
)	
)	OF VERMONT
<u>s/ John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: OCTOBER 27, 2010

ATTEST: s/ Judith C. Whitney
Deputy Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@psb.state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.